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FM AMEMBASSY KATHMANDU
TO RUEHNE/AMEMBASSY NEW DELHI IMMEDIATE 2600
INFO RUEHBJ/AMEMBASSY BEIJING PRIORITY 6625
RUEHLM/AMEMBASSY COLOMBO PRIORITY 6928
RUEHKA/AMEMBASSY DHAKA PRIORITY 2235
RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 4974
RUEHLO/AMEMBASSY LONDON PRIORITY 6180
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 2601
RUEHSA/AMEMBASSY PRETORIA PRIORITY 0197
RUEHCG/AMCONSUL CHENNAI PRIORITY 2916
RUEHCI/AMCONSUL KOLKATA PRIORITY 4298
RUEHC/SECSTATE WASHDC PRIORITY 9093
RUEHGV/USMISSION GENEVA PRIORITY 2147
RUEKJCS/SECDEF WASHDC PRIORITY
RUCNDT/USMISSION USUN NEW YORK PRIORITY 3297
RHEFDIA/DIA WASHDC PRIORITY
RHMFIUU/CDR USPACOM HONOLULU HI PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY

UNCLAS SECTION 01 OF 03 KATHMANDU 000952

SIPDIS

PLEASE PASS STAFFDEL YEO (ANAND, WOOLFORK) FROM AMB NJPOWELL

E.O. 12958: N/A

TAGS: [PREL](#) [PGOV](#) [PHUM](#) [KDEM](#) [NP](#)

SUBJECT: SCENESETTER FOR STAFFDEL ANAND WOOLFORK NEPAL VISIT

Summary

1. (SBU) Your visit to Nepal comes four months after the interim government held national elections. Election results confirmed the Maoists as the largest party, and also saw new Terai-based parties receive significant representation. The Constituent Assembly relatively quickly declared Nepal a republic, but it took months of negotiations for it to elect a President, Vice-President, Prime Minister and new Chairman. On August 18 Pushpa Kamal Dahal (aka Prachanda) was sworn in as the country's first Maoist Prime Minister and he is on the verge of announcing a complete cabinet. The new government faces numerous economic and security challenges, and the United States faces the challenge of dealing with a Prime Minister and government led by an organization still on the Terrorist Exclusion List and Specially Designated Nationals List.

Recent Election Results

2. (SBU) To the surprise of most Nepalis, including the Maoists themselves, the Communist Party of Nepal (Maoist) (CPN-M) won the largest share of the vote on April 10 for the Constituent Assembly (CA). They garnered half of the 240 first-past-the-post (FPTP) races and almost one-third of the 335 proportional (PR) seats. With 9 of the 26 nominated members put forward by the Maoists, the CPN-M controls close to 40 percent of the 601-member CA. Pre-election violence and intimidation certainly occurred, but voter turnout was in excess of 60 percent and the results have been broadly accepted by both domestic and international observer groups.

3. (SBU) The CPN-M is not the only party to which the April 10 election gave the democratic stamp of approval. The three United Democratic Madhesi Front (UDMF) parties, none of which existed as parties a year ago, together accumulated 79 seats in the CA; the Madhesi People's Rights Forum (MPRF) won 50 seats, the Terai Madhes Democratic Party (TMDP) 20 and Sadbhavana Party (SP) 9. Although the UDMF parties share common goals of an autonomous Madhesi state across Nepal's southern Terai region along the Indian border, and inclusion

of historically disadvantaged Madhesis in all national institutions, they are not always able to work or vote as a bloc.

Now a Republic

14. (U) The CA held its first session on May 29, and declared Nepal a federal democratic republic on the same day. The motion stripped the monarchy of all special legal, cultural, social and traditional rights and privileges and directed King Gyanendra and his family to vacate Narayanhiti Palace within 15 days. The vote to create the republic and abolish the 240-year old Shah dynasty was overwhelming. Of the CA's 564 members present, only four (all members of the royalist Rastriya Prajatantra Party - Nepal) voted against. King Gyanendra left Narayanhiti Palace and moved to a smaller, less ostentatious state-owned home. His son's family has recently moved to Singapore.

Slow Start to Constituent Assembly

15. (SBU) It took nearly two months after the first session for the CA to elect a President, Vice-President, and Chairman of the Assembly. After months of arguments, disagreements, and short-lived alliances, on the eve of the presidential election, the Nepali Congress (NC), Communist Party of Nepal - United Marxist Leninist (UML), and MPRF caught the Maoists off guard by joining hands and voting in their candidates for

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the three posts. On July 23 President Ram Baran Yadav (NC) and Vice-President Paramananda Jha (MPRF) were sworn in, with Subash Nemwang (UML) sworn in as CA Chairman a few days later. The backlash against VP Jha taking his oath in Hindi has subsided, but may have played a role in the socket bomb attack at Jha's residence on August 17.

16. (SBU) On July 29 President Yadav issued a public statement calling upon the Maoists to form a new government, on the basis of consensus, within seven days. The Maoists proved unable to do that, but on August 8 did garner support from all but NC to elect Pushpa Kamal Dahal (Prachanda) as Prime Minister. The Maoists, UML, and MPRF have tentatively agreed to form the government, with the Maoists to get 9 ministries (likely including Defense and Finance), the UML 6, MPRF 4, and smaller parties 4. Political disputes over the distribution of ministries, particularly Foreign Affairs and Deputy Prime Minister positions, have delayed the announcement of the cabinet.

Economic

17. (SBU) The new government will face major and immediate economic challenges. Nepal's sole source of petroleum products, the Indian Oil Corporation (IOC), provides oil supplies on credit to Nepal's monopoly oil supplier, Nepal Oil Corporation (NOC). Domestic oil shortages continue to plague the economy, since IOC periodically severely limits deliveries to NOC as a result of NOC not keeping current with payments. Despite raising prices a few times in the past year most petroleum products are still subsidized and have not kept up with world market prices. It will be the new government's responsibility to further increase the price of oil, a contentious issue, which has in the past provoked hostile responses by the masses, often led by the Maoists, in the form of violent protests.

18. (SBU) Current and potential food shortages are a growing concern. Transportation difficulties compound the problem of distribution in remote areas, and recent floods have displaced thousands. When campaigning the Maoists had promised to raise salaries, provide free health care and education as well as universal employment, but it is unclear

how they plan to deliver on their promises. Maoist proposals regarding land reform could also likely to lead to conflict. The country is operating under an interim budget which allocated an amount equivalent to one-third of the previous year's budget.

Security -----

¶9. (SBU) The current political impasse in Kathmandu has perpetuated weak implementation of law and order throughout the country, especially in the Terai. In the past three months junior officers in two battalions of the Nepal Police and Armed Police Force mutinied against senior officers on charges of corruption and harassment. Although the situation remains fluid, USAID implementing partners in the Terai report that they are able to operate their programs in eastern and central Terai. The programs continue to be well received by the local communities.

¶10. (SBU) Integration of the Maoist People's Liberation Army (PLA) with the Nepalese security forces is another contentious issue now coming to the fore. The Maoists have announced they would like the forces to be integrated within the next three to six months, but a concrete plan has not yet been put forward or agreed to by the other parties and security forces. Despite numerous pledges to rein in the Maoist-affiliated Young Communist League numerous allegations of its engagement in both criminal and parallel policing

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activities continue to be made.

UNMIN -----

¶11. (SBU) The United Nations Mission in Nepal (UNMIN) was granted a six-month extension on July 23, 2008. Although the mandate has been reduced, UNMIN will continue supporting the peace process and monitoring arms and armed personnel in line with agreements reached across the political parties. The United States government is working with UNMIN and the UK to encourage P-5 and Indian support for steps that can lead to the successful conclusion of UNMIN.

U.S. Policy in Transition -----

¶12. (SBU) Throughout the transition the United States has publicly stated the desire to continue all assistance programs to promote a stable, prosperous, and democratic Nepal. Contact with the Maoists continues to be limited and primarily occurs at higher levels. An expanded OFAC waiver was recently signed, allowing inclusion of Maoists in USG-funded training/programs. However, the Maoists remain on the Terrorist Exclusion List and Specially Designated Foreign Nationals List, though discussions are underway as to the procedures to remove them should their behavior warrant.
POWELL